

Response to May 7, 2012 Sauk Valley Media article,
"Sterling official: Red flags stood out in Dixon"

Scott Shumard, City Manager

I was recently interviewed regarding the City of Sterling's internal controls following the arrest of Dixon's comptroller. The first question asked was of my initial reaction to the arrest. The response, "My honest initial reaction was: That explains why their annual financial reports were so out of whack," has generated interest into what specifically was noticed and I wanted to clarify my exact observations.

Following the national financial crisis that began in 2008, Sterling had a very public and occasionally contentious debate with the fire union in an attempt to freeze wages to avoid a large budget deficit and a large inequity between employee groups. It was a difficult task, but our approach ultimately allowed us to change from negotiated health insurance premiums to percentage shares from employees. It let us set the stage for the use of furlough hours for fire union employees as well as non-represented employees.

In seeing news from other locales in regards to budgets, I began to compare our fiscal health and our changes compared to other cities in Northwestern Illinois and comparably sized downstate cities in advance of preparing a tax levy recommendation to the Sterling City Council. The two primary things I wanted to compare were: 1) the reported fund balance and the fund balance percentage of other cities General Funds (reserves/expenditures) and 2) the year to year changes in fund balances to see how other cities were adjusting spending in their General Funds.

In late 2010, I compiled the results of 33 cities 2009 and 2010 Annual Financial Reports (AFR's), which are publicly available from the Illinois Comptroller's website. I first shared Dixon's AFR with other city managers, administrators and other professional peers as the fund balances and year to year changes seemed well outside of the norm. On January 31, 2011, the City of Sterling held its first budget meeting for Fiscal Year 2011-12 Budget. There, I presented my findings, primarily to inform the Sterling Council of our superior fiscal health, and to demonstrate that our proactive measures had allowed us to preserve our fiscal health, particularly in relation to most cities. The meeting was also setting the stage to implement a formal fund balance policy to further strengthen our financial policies. At that meeting that I pointed out our health and the obvious comparisons to our neighbors. My research showed that Dixon's negative General Fund balance was dramatically out of line with all 32 other cities compared. The second worst off city, had a fraction of the nominal problem, and by fund balance percentage, Dixon was 43.6 percentage points worse than the second worst off city in the list. Even including Dixon's massive negative fund balance, the overall average of the 33 communities surveyed was a +30% fund balance as opposed to Dixon's -57.9%. The following chart was page 4 of a presentation presented to the Sterling City Council at a public meeting on January 31, 2011:

Place	Population	2010 EAV	2010 Fund Balance	2010 GF Expenditures	Fund Balance %
Dixon	14,953	\$ 177,793,317	\$ (4,548,014)	\$ 7,853,130	-57.9%
Streator	14,190	\$ 113,725,107	\$ (1,128,822)	\$ 7,901,417	-14.3%
Morrison	4,447	\$ 46,936,033	\$ (318,999)	\$ 2,681,241	-11.9%
Milan	5,195	\$ 69,876,534	\$ (134,199)	\$ 3,385,187	-4.0%
Kankakee	26,840	\$ 289,553,600	\$ 989,313	\$ 38,514,772	2.6%
Prophetstown	2,100	\$ 17,961,031	\$ 80,906	\$ 1,384,080	5.8%
Decatur	81,860	\$ 912,014,180	\$ 5,255,229	\$ 51,876,345	10.1%
Danville	33,904	\$ 357,903,707	\$ 2,609,940	\$ 23,003,349	11.3%
DeKalb	45,932	\$ 645,855,095	\$ 3,508,222	\$ 25,693,585	13.7%
Pontiac	11,864	\$ 135,000,000	\$ 755,534	\$ 5,428,130	13.9%
Silvis	7,269	\$ 67,751,586	\$ 610,900	\$ 3,234,447	18.9%
Taylorville	11,600	\$ 121,161,793	\$ 1,130,152	\$ 5,980,551	18.9%
Mendota	9,221	\$ 77,121,995	\$ 821,240	\$ 4,248,243	19.3%
Rock Falls	9,268	\$ 75,944,740	\$ 1,390,195	\$ 6,379,080	21.8%
Freeport	26,800	\$ 269,189,472	\$ 3,477,638	\$ 14,683,088	23.7%
Rochelle	9,858	\$ 202,261,152	\$ 1,704,437	\$ 6,948,341	24.5%
Rock Island	39,684	\$ 472,460,100	\$ 8,454,586	\$ 30,948,682	27.3%
Loves Park	22,476	\$ 451,652,378	\$ 2,975,241	\$ 9,824,861	30.3%
Sycamore	14,866	\$ 459,585,633	\$ 3,856,109	\$ 12,161,346	31.7%
Belvidere	23,352	\$ 447,767,822	\$ 3,654,432	\$ 11,285,324	32.4%
Fulton	3,881	\$ 49,850,042	\$ 367,500	\$ 1,082,828	33.9%
Rantoul	12,247	\$ 110,256,733	\$ 3,179,119	\$ 6,880,681	46.2%
Lincoln	15,369	\$ 149,643,087	\$ 2,841,493	\$ 5,787,628	49.1%
Macomb	20,050	\$ 165,383,144	\$ 5,155,825	\$ 10,416,337	49.5%
Charleston	21,039	\$ 181,660,338	\$ 5,247,494	\$ 9,409,883	55.8%
Monmouth	9,244	\$ 64,267,746	\$ 3,886,792	\$ 6,142,180	63.3%
East Peoria	23,140	\$ 423,364,569	\$ 4,765,572	\$ 7,183,568	66.3%
Marion	17,129	\$ 290,989,262	\$ 10,806,121	\$ 15,489,347	69.8%
Sterling	15,596	\$ 170,675,325	\$ 7,992,741	\$ 9,874,978	80.9%
Kewanee	12,944	\$ 89,659,508	\$ 4,070,468	\$ 4,928,300	82.6%
Machesney Park	22,707	\$ 385,050,655	\$ 4,778,008	\$ 5,576,941	85.7%
Morris	12,257	\$ 319,882,986	\$ 6,736,252	\$ 7,341,115	91.8%
Pekin	33,857	\$ 446,628,087	\$ 20,124,861	\$ 20,548,182	97.9%
AVERAGE	19,247	\$ 250,267,477	\$ 3,487,766	\$ 11,638,702	30.0%

A negative fund balance of that proportion does not indicate fraud has or has not occurred. Not having seen the City of Dixon budget, it was possible the City Commissioners were authorizing spending more than they had for emergency capital projects or to bridge financial gaps elsewhere. However, drawing down fund balances to negative levels is not typical. The Government Finance Officers Association (GFOA) generally recommends a city have at least 2 months of expenses in General Fund reserves for the purposes of cash flow and emergencies and most cities that formalize a policy seem to target at least 3 months, a fund balance ratio of +25%. That compares well to the overall survey of +30% that I compiled.

My second concern of significance was how quickly Dixon's negative fund balance was growing. Out of 33 cities in the same survey, Dixon had the 2nd largest nominal decrease in the General Fund's fund balance and by percentage, Dixon had the 4th largest decrease in their fund balance ratio even after bonding for cash. The following chart was page 19 of a presentation presented to the Sterling City Council at a public meeting on January 31, 2011:

Place	Population	2010 EAV	2009 Fund Bal.	2010 Fund Bal.	\$ Change	% Change	Fund Balance %
Milan	5,195	\$ 69,876,534	\$ 64,348	\$ (134,199)	\$ (198,547)	-308.6%	-4.0%
Morrison	4,447	\$ 46,936,033	\$ 812,746	\$ (318,999)	\$ (1,131,745)	-139.2%	-11.9%
Prophetstown	2,100	\$ 17,961,031	\$ 247,271	\$ 80,906	\$ (166,365)	-67.3%	5.8%
Dixon*	14,953	\$ 177,793,317	\$ (2,736,321)	\$ (4,548,014)	\$ (1,811,693)	-66.2%	-57.9%
Kankakee	26,840	\$ 289,553,600	\$ 2,204,962	\$ 989,313	\$ (1,215,649)	-55.1%	2.6%
Rock Falls	9,268	\$ 75,944,740	\$ 2,437,449	\$ 1,390,195	\$ (1,047,254)	-43.0%	21.8%
Danville	33,904	\$ 357,903,707	\$ 4,275,776	\$ 2,609,940	\$ (1,665,836)	-39.0%	11.3%
East Peoria	23,140	\$ 423,364,569	\$ 7,747,586	\$ 4,765,572	\$ (2,982,014)	-38.5%	66.3%
Fulton	3,881	\$ 49,850,042	\$ 516,909	\$ 367,500	\$ (149,409)	-28.9%	33.9%
Sycamore	14,866	\$ 459,585,633	\$ 4,947,653	\$ 3,856,109	\$ (1,091,544)	-22.1%	31.7%
Mendota	9,221	\$ 77,121,995	\$ 1,022,675	\$ 821,240	\$ (201,435)	-19.7%	19.3%
Monmouth	9,244	\$ 64,267,746	\$ 4,654,777	\$ 3,886,792	\$ (767,985)	-16.5%	63.3%
Pontiac	11,864	\$ 135,000,000	\$ 899,770	\$ 755,534	\$ (144,236)	-16.0%	13.9%
Loves Park	22,476	\$ 451,652,378	\$ 3,530,939	\$ 2,975,241	\$ (555,698)	-15.7%	30.3%
Rock Island	39,684	\$ 472,460,100	\$ 9,652,462	\$ 8,454,586	\$ (1,197,876)	-12.4%	27.3%
Lincoln	15,369	\$ 149,643,087	\$ 3,180,386	\$ 2,841,493	\$ (338,893)	-10.7%	49.1%
Kewanee	12,944	\$ 89,659,508	\$ 4,384,428	\$ 4,070,468	\$ (313,960)	-7.2%	82.6%
Silvis	7,269	\$ 67,751,586	\$ 649,284	\$ 610,900	\$ (38,384)	-5.9%	18.9%
DeKalb	45,932	\$ 645,855,095	\$ 3,701,618	\$ 3,508,222	\$ (193,396)	-5.2%	13.7%
Morris	12,257	\$ 319,882,986	\$ 7,087,925	\$ 6,736,252	\$ (351,673)	-5.0%	91.8%
Machesney Park	22,707	\$ 385,050,655	\$ 4,987,596	\$ 4,778,008	\$ (209,588)	-4.2%	85.7%
Sterling	15,596	\$ 170,675,325	\$ 8,315,143	\$ 7,992,741	\$ (322,402)	-3.9%	80.9%
Macomb	20,050	\$ 165,383,144	\$ 5,243,245	\$ 5,155,825	\$ (87,420)	-1.7%	49.5%
Taylorville	11,600	\$ 121,161,793	\$ 1,131,587	\$ 1,130,152	\$ (1,435)	-0.1%	18.9%
Charleston	21,039	\$ 181,660,338	\$ 5,162,518	\$ 5,247,494	\$ 84,976	1.6%	55.8%
Rochelle	9,858	\$ 202,261,152	\$ 1,651,768	\$ 1,704,437	\$ 52,669	3.2%	24.5%
Rantoul	12,247	\$ 110,256,733	\$ 3,046,205	\$ 3,179,119	\$ 132,914	4.4%	46.2%
Freeport*	26,800	\$ 269,189,472	\$ 3,245,106	\$ 3,477,638	\$ 232,532	7.2%	23.7%
Marion**	17,129	\$ 290,989,262	\$ 9,957,872	\$ 10,806,121	\$ 848,249	8.5%	69.8%
Streator	14,190	\$ 113,725,107	\$ (1,250,637)	\$ (1,128,822)	\$ 121,815	9.7%	-14.3%
Belvidere***	23,352	\$ 447,767,822	\$ 3,131,380	\$ 3,654,432	\$ 523,052	16.7%	32.4%
AVERAGE	16,756	222,586,596	3,351,756	2,894,071	(457,685)	-28.41%	31.71%
*Dixon And Freeport borrowed cash for operating expenditures							
**Marion has an 8.5% sales tax							
***Belvidere closed city hall on Fridays and gave workers 26 furlough days							

If I had had a reason to suspect fraud, I would have ethically been bound to report it as a member of ICMA (International City/County Management Association).

With the City of Sterling's organizational structure under the city manager form of government, our segregation of duties among professional staff, our premier financial software, our auditing practices, and our reporting capabilities, I could not reconcile how millions of dollars could be defrauded from a city, particularly of our size, without someone detecting the fraud.

Having assumed Dixon's Commission had provided for proper internal controls and assuming that the Commissioners were providing direct oversight of budgets and audit reviews under the Commission form of government: 1) one could presume the large scale of the deficits and fast growing negative fund balance had already triggered a review of finances, and 2) subsequently, the Commission was actively approving large deficit spending measures and that the run up of negative fund balances as shown in the audits and AFR's as part of their chosen fiscal policy. It has since been revealed that the internal controls and oversight in Dixon were insufficient, thus rendering my assumptions moot, which then led to the answer I provided the reporter.